Glenbriar Technologies Inc.

2004 Annual Report

IT MANAGEMENT | NETWORKED TELEPHONY | WEB SERVICES | PROCUREMENT | ENTERPRISE RESOURCE PLANNING

BC FORM 51-901F

2004 ANNUAL REPORT

This Report includes the following Schedules, as set forth in BC Form 51-901F:

A. Audited 2004 Annual Financial Statements;
B. Supplementary Information; and
C. Management Discussion and Analysis.

ISSUER DETAILS **NAME OF ISSUER** Glenbriar Technologies Inc.	**FOR YEAR ENDED** 2004 09 30	**DATE OF REPORT YY / MM / DD** 05 01 25
ISSUER ADDRESS 301, 401 9 Ave SW		
CITY/PROVINCE/POSTAL CODE Calgary, AB T2P 3C5	**ISSUER FAX NO.** (403) 234-7310	**ISSUER PHONE NO.** (403) 233-7300
CONTACT NAME Robert D. Matheson	**CONTACT POSITION** President	**CONTACT PHONE NO.** (403) 233-7300
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CERTIFICATE
The three schedules required to complete this Report are attached and the disclosure contained therein has been approved by the Board of Directors. A copy of this Report will be provided to any shareholder who requests it.

DIRECTOR'S SIGNATURE "Robert Matheson"	**PRINT FULL NAME** Robert D. Matheson	**DATE OF REPORT YY / MM / DD** 05 01 25
DIRECTOR'S SIGNATURE "Brian Tijman"	**PRINT FULL NAME** Brian Tijman	**DATE OF REPORT YY / MM / DD** 05 01 25

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Auditors' Report

To the Shareholders of
Glenbriar Technologies Inc.:

We have audited the consolidated balance sheets of **Glenbriar Technologies Inc.** as at September 30, 2004 and 2003 and the consolidated statements of earnings and retained earnings and of cash flows for the years then ended. These consolidated financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at September 30, 2004 and 2003 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Calgary, Alberta
December 17, 2004

"Deloitte & Touche LLP"
Chartered Accountants

GLENBRIAR TECHNOLOGIES INC.
Consolidated Statements of Earnings and Retained Earnings
Years Ended September 30, 2004 and 2003

	2004 $	2003 $
REVENUE		
Information technology consulting	**2,970,387**	3,077,829
Equipment and software sales	**1,894,431**	1,965,743
Oil and gas sales, net of royalties of $16,899 (2003 - $26,325)	**146,177**	181,056
Gain on disposal of assets (Note 3)	**-**	13,957
Interest and other income	**7,884**	10,122
	5,018,879	5,248,707
EXPENSES		
Information technology consulting	**2,239,359**	2,410,738
Cost of goods sold	**1,625,002**	1,596,079
General and administrative (Note 5)	**900,941**	950,499
Depletion, depreciation and amortization	**143,105**	174,017
Oil and gas production	**68,669**	67,194
Interest and bank charges	**17,278**	28,180
Foreign exchange loss	**5,650**	7,476
	5,000,004	5,234,183
EARNINGS BEFORE INCOME TAXES	**18,875**	14,524
PROVISION FOR INCOME TAXES (Note 9)		
Future	**-**	14,000
	-	14,000
NET EARNINGS	**18,875**	524
RETAINED EARNINGS, BEGINNING OF YEAR	**3,939**	3,415
RETAINED EARNINGS, END OF YEAR	**22,814**	3,939
EARNINGS PER SHARE		
Basic	**0.001**	0.000
Diluted	**0.001**	0.000
WEIGHTED AVERAGE SHARES OUTSTANDING		
Basic	**25,789,928**	25,447,843
Diluted	**25,789,928**	25,447,843

GLENBRIAR TECHNOLOGIES INC.
Consolidated Balance Sheets
September 30, 2004 and 2003

	2004 $	2003 $
ASSETS		
CURRENT		
Accounts receivable	**975,067**	985,385
Prepaid expenses	**42,226**	1,600
Inventory	**158,098**	295,346
	1,175,391	1,282,331
Capital assets (Note 3)	**311,050**	277,302
Intangible assets (Note 4)	**606,813**	430,773
Goodwill	**1,023,756**	1,023,756
Future income taxes (Note 9)	**961,255**	847,979
	4,078,265	3,862,141
LIABILITIES		
CURRENT		
Bank indebtedness	**-**	29,531
Revolving credit facility (Note 6)	**175,048**	-
Accounts payable and accrued liabilities	**459,800**	492,642
Current portion of long-term liabilities (Note 7)	**18,500**	36,000
Deferred revenue	**281,649**	239,875
Current portion of deferred leasehold allowances (Note 3)	**15,360**	-
	950,357	798,048
Long-term liabilities (Note 7)	**-**	18,500
Provision for site restoration and abandonment	**11,930**	9,930
Deferred leasehold allowances (Note 3)	**61,440**	-
	1,023,727	826,478
SHAREHOLDERS' EQUITY		
Share capital (Note 8)	**3,031,724**	3,031,724
Retained earnings	**22,814**	3,939
	3,054,538	3,035,663
	4,078,265	3,862,141

APPROVED BY THE BOARD

"Peter Varteresian" - **Director**

"Robert Matheson" - **Director**

GLENBRIAR TECHNOLOGIES INC.
Consolidated Statements of Cash Flows
Years Ended September 30, 2004 and 2003

	2004 $	2003 $
CASH FLOWS RELATED TO THE FOLLOWING ACTIVITIES:		
OPERATING		
Net earnings	**18,875**	524
Adjustments for:		
Gain on disposal of assets	**-**	(13,957)
Depletion, depreciation and amortization	**143,105**	174,017
Future income taxes	**-**	14,000
	161,980	174,584
Changes in non-cash working capital (Note 13)	**214,676**	(34,813)
	376,656	139,771
FINANCING		
Increase in revolving credit facility	**175,048**	-
Decrease in long-term liabilities	**(36,000)**	(35,500)
Building mortgage repayments (Note 7)	**-**	(152,000)
Exercise of stock options (Note 8)	**-**	52,250
	139,048	(135,250)
INVESTING		
Net proceeds on disposal of assets (Note 3)	**-**	230,157
Capital expenditures	**(116,427)**	(11,939)
Software development costs (Note 4)	**(369,746)**	(310,825)
	(486,173)	(92,607)
NET INCREASE (DECREASE) IN CASH	**29,531**	(88,086)
CASH (BANK INDEBTEDNESS), BEGINNING OF YEAR	**(29,531)**	58,555
CASH (BANK INDEBTEDNESS), END OF YEAR	**-**	(29,531)

SUPPLEMENTARY CASH FLOW INFORMATION (Note 13)

Notes to the Consolidated Financial Statements
Years Ended September 30, 2004 and 2003

1. BASIS OF PRESENTATION

Glenbriar Technologies Inc. (the "Corporation") was incorporated under the Business Corporations Act (Alberta) on July 15, 1994. The consolidated financial statements for the years ended September 30, 2004 and 2003 include the accounts of its only active subsidiary, Peartree Software Inc. ("Peartree").

2. SIGNIFICANT ACCOUNTING POLICIES

Cash and bank indebtedness

Cash includes short-term deposits of 90 days or less. Bank indebtedness relates to cheques issued but not yet cleared.

Inventory

Inventory is comprised of equipment and spare parts and is carried at the lower of cost and net realizable value.

Measurement uncertainty

The preparation of the Corporation's consolidated financial statements in conformity with Canadian generally accepted accounting policies requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expense during the reporting periods presented. Significant estimates include the assessment of recoverability of carrying values of the Corporation's intangible assets, goodwill, oil and gas properties and future income tax assets. Actual results could differ from the estimates.

Intangible assets

Intangible assets are amortized on a straight-line basis as follows:

Customer lists	3 years
Proprietary software	5 years

Research and development costs incurred prior to the establishment of the technological and financial feasibility of a particular software project are expensed as incurred. Software development costs are capitalized when the technological and financial feasibility of a project is established. Capitalized costs will be amortized on a straight-line basis over the estimated period of benefit beginning upon the product's commercial release.

If a permanent impairment in value is determined, the carrying value of the intangible assets is written down to recoverable value and the excess charged to earnings. The net recoverable value is based on management's estimate of future cash flows from the related intangible asset. There was no impairment of intangible assets recorded during the years ended September 30, 2004 or 2003.

Goodwill

Goodwill represents the excess of the purchase price over the value attributed to net tangible and intangible assets acquired. Goodwill is assessed for a permanent impairment in value on an annual basis by comparing the carrying value of the applicable reporting unit to its estimated fair value. Fair value is determined based on management's estimates of future cash flows. There was no impairment of goodwill recorded during the years ended September 30, 2004 or 2003.

Revenue recognition - information technology services

Equipment and software sales relate to proprietary software and products purchased and resold to customers. The revenue from these sales is recognized upon shipment and invoicing. Information technology consulting revenue is recognized as services are rendered. In cases where collectibility is not reasonably assured, revenue is recognized when the cash is collected. Payments received in advance of services rendered are deferred until such time as the services are performed.

Foreign currency transactions

Revenue and expenses are recorded at the average rate of exchange in effect at the transaction dates. Monetary assets and liabilities relating to foreign exchange transactions are recorded at rates of exchange in effect at the balance sheet date and any resulting gains or losses recorded in income for the period.

Depreciation

Computers and office equipment are depreciated using the declining-balance method at rates ranging from 10% - 30% per year. Leasehold improvements are amortized over the term of the lease (5 years).

Oil and gas operations

The statements reflect the Corporation's proportionate share of gas production activities conducted jointly with others.

The Corporation follows the full cost method of accounting for oil and gas operations, whereby all historical costs of exploring for and developing oil and gas properties and related reserves are capitalized into a single cost centre. Proceeds on disposal of oil and gas properties and equipment are credited to the full cost pool, unless there is a significant change in the depletion and depreciation rate, in which case a gain or loss is recognized.

Total capitalized costs are depleted using the unit-of-production method based on estimated proven reserves. If capitalized costs exceed estimated undiscounted future net revenues from proved reserves, net of estimated future abandonment costs, general and administrative expenses, financing costs and income taxes, a write-down is recorded. A provision is included in depletion, depreciation and amortization for future site restoration and abandonment costs based on the unit-of-production method.

Income taxes

The Corporation uses the liability method of accounting for income taxes. Under this method, temporary differences arising from the differences between the tax basis of an asset or liability and its carrying amount on the balance sheet are used to calculate future income tax liabilities or assets. Future income tax liabilities or assets are calculated using substantially enacted tax rates anticipated to apply in the periods that the temporary differences are expected to reverse. Temporary differences arising on acquisitions result in future income tax liabilities or assets.

Investment tax credits

The Corporation is entitled to Canadian federal and provincial investment tax credits that are earned as a percentage of eligible current and capital research and development expenditures incurred in each taxation year. Investment tax credits are accounted for as a reduction of related expenses or capitalized costs in the period during which the credit is realized or the expenditures are incurred, provided there is reasonable assurance of realization.

Stock option plan

The Corporation has a stock option plan as described in Note 8. For the 2003 fiscal year, no compensation expense was recognized for this plan when the stock options were issued based on intrinsic values. Any consideration paid on exercise of stock options or purchase of stock was credited to share capital. Commencing with the 2004 fiscal year, the Corporation has adopted the new accounting recommendation for stock-based compensation, which requires recognition of expenses for stock options issued based on the fair value at the date of grant, calculated using the Black-Scholes option pricing model. As there were no options issued during the 2004 fiscal year, there was no impact on earnings as a result of adopting the new standard.

Per share amounts

The Corporation follows the treasury stock method to determine the dilutive effect of stock options. Under this method, basic net earnings per share are calculated using the weighted average number of common shares outstanding during the period. Diluted earnings per share is calculated on the basis of the weighted average number of common shares outstanding during the period plus the additional incremental common shares that would have been outstanding if potentially dilutive common shares had been issued using the treasury stock method.

3. CAPITAL ASSETS

	2004		
	Cost $	Accumulated Depletion and Depreciation $	Net Book Value $
Oil and gas properties and equipment	993,970	(945,040)	48,930
Computers and office equipment	443,637	(245,717)	197,920
Leasehold improvements	72,800	(8,600)	64,200
	1,510,407	(1,199,357)	311,050

	2003		
	Cost $	Accumulated Depletion and Depreciation $	Net Book Value $
Oil and gas properties and equipment	993,971	(939,040)	54,931
Computers and office equipment	400,009	(177,638)	222,371
	1,393,980	(1,116,678)	277,302

Leasehold allowances received during the year of $87,100 (net of amounts amortized to rent expense of $10,300) have been deferred and are being amortized over the 5 year lease term. In April 2003, the Corporation sold its office location in Coquitlam, B.C. for net proceeds after commissions of $230,157, resulting in a gain on sale of $13,957.

4. INTANGIBLE ASSETS

	2004		
	Cost $	Accumulated Amortization $	Net Book Value $
Customer lists	70,899	(70,899)	-
Proprietary software	255,100	(195,577)	59,523
Software development costs	547,290	-	547,290
	873,289	(266,476)	606,813

	2003		
	Cost $	Accumulated Amortization $	Net Book Value $
Customer lists	70,899	(61,494)	9,405
Proprietary software	255,100	(144,557)	110,543
Software development costs	310,825	-	310,825
	636,824	(206,051)	430,773

Amortization of intangible assets during the year was $60,425 (2003 – $81,181). The carrying value of software developments costs has been reduced by the benefit of investment tax credits of $133,276 recorded during the year (2003 – $nil). The remaining investment tax credit of $27,000 was recorded as a reduction of expenses.

5. GENERAL AND ADMINISTRATIVE

General and administrative expenses for the year ended September 30, 2003 were reduced by $108,500 relating to settlement of legal obligations.

6. REVOLVING CREDIT FACILITY

The Corporation has a line of credit available to a maximum of $500,000. Drawings bear interest at 1% above the bank's prime lending rate with interest payable monthly. Security is provided by a first charge over all of the Corporation's assets. The outstanding principal balance is repayable on demand. As at September 30, 2004, there was $175,048 (2003 – nil) drawn under the facility.

7. LONG-TERM LIABILITIES

Long-term liabilities at September 30, 2004 are comprised of $18,500 (2003 - $54,500) payable to former directors of Peartree. The remaining balance is non-interest bearing and repayable over 6 months at $3,000 per month from October 2004 to March 2005.

During 2003, the Corporation sold a building and retired the building mortgage payable of $152,000 (Note 3). Interest expense related to long-term debt for the year was $nil (2003 - $14,240).

8. SHARE CAPITAL

i) *Authorized*
Unlimited number of common shares
Unlimited number of preferred shares of one or more series

ii) Common shares issued and outstanding	Number of shares	**Amount $**
Balance, September 30, 2002	25,267,428	2,979,474
Exercise of stock options	522,500	52,250
Balance, September 30, 2003	**25,789,928**	**3,031,724**
Balance, September 30, 2004	**25,789,928**	**3,031,724**

iii) Stock option plan

The Corporation is authorized to grant stock options to directors, officers and employees for up to 10% of the number of common shares outstanding. These options are exercisable over periods up to 5 years at prices based upon the Corporation's trading price on the date of issue. The following is a summary of the Corporation's outstanding stock options as of September 30, 2004 and 2003 and changes during the years ending on those dates:

	2004		2003	
	Number of Shares	**Weighted Average Exercise Price $**	Number of Shares	Weighted Average Exercise Price $
Outstanding, beginning of year	-	-	2,414,254	0.11
Exercised	-	-	(522,500)	0.10
Expired	-	-	(1,891,754)	0.11
Outstanding, end of year	-	-	-	-
Exercisable, end of year	-		-	

9. INCOME TAXES

The components of the future income tax asset amounts as at September 30, 2004 and 2003 are as follows:

	2004 $	2003 $
Excess of tax basis over carrying value of assets	**59,255**	99,711
Future benefit of prior year's losses	**799,000**	748,268
Investment tax credits	**103,000**	-
	961,255	847,979

As at September 30, 2004, the Corporation had investment tax credits of approximately $163,000 available to reduce future taxes otherwise payable, and non-capital losses of approximately $2.2 million available to be carried forward to reduce future taxable income. The benefit of these credits and losses has been recognized in the consolidated financial statements. The investment tax credits expire between 2012 and 2014 and the non-capital losses expire between 2008 and 2011.

Income tax expense (recovery) differs from the amounts which would be obtained by applying the combined federal and provincial statutory income tax rate to the respective years' earnings before income taxes. The following schedule explains the differences between the expected and actual tax expense (recovery):

	2004 $	2003 $
Earnings before income taxes	**18,875**	14,524
Expected income taxes – statutory rate of 36.5% (2003 - 36.8%)	**6,900**	5,345
Effect of tax rate changes	**(24,900)**	45,000
Adjustments to tax pools and other permanent differences	**25,000**	(25,345)
Resource allowance in excess of non-deductible Crown charges	**(7,000)**	(11,000)
	-	14,000

10. SEGMENTED INFORMATION

As at September 30, 2004, the Corporation operates primarily in the information technology services sector and has only one reportable operating segment. Accordingly, segmented information with respect to the Corporation's oil and gas production activities has not been presented for the 2004 or 2003 fiscal periods.

11. COMMITMENTS

The Corporation is committed to the following minimum annual payments for office leases:

	$
2005	188,600
2006	133,500
2007	66,800
2008	67,300
2009	46,100

12. FINANCIAL INSTRUMENTS

The carrying value of the Corporation's accounts receivable, bank indebtedness, accounts payable and accrued liabilities, and other long-term liabilities approximate their respective fair values.

Credit risk

The Corporation is exposed to normal credit risk from customers. The Corporation minimizes concentrations of credit risk by maintaining a wide customer base spread across differing industries.

Interest rate risk

The Corporation is exposed to interest rate risk on any outstanding drawings on the demand credit facility.

Commodity risk

The Corporation's gas sales are subject to commodity price changes. No contracts are in place to mitigate this exposure.

Foreign exchange risk

A portion of the Corporation's sales are denominated in foreign currency. The Corporation has no contracts in place to mitigate this exposure.

13. SUPPLEMENTARY CASH FLOW INFORMATION

	2004 $	2003 $
Changes in non-cash working capital:		
Accounts receivable	**65,322**	187,907
Prepaid expenses	**(40,626)**	(224)
Inventory	**137,248**	(13,187)
Accounts payable and accrued liabilities	**(65,842)**	(199,130)
Deferred revenue	**41,774**	(10,179)
Deferred leasehold allowances	**76,800**	-
	214,676	(34,813)
Cash interest paid	**10,078**	14,240
Cash taxes paid	**-**	-

14. SUBSEQUENT EVENTS

In December 2004, the Corporation sold all of its remaining interest in oil and gas properties and equipment for $150,000, resulting in a gain on sale of approximately $100,000 after closing adjustments.

Schedule B: SUPPLEMENTARY INFORMATION

1. *Analysis of expenses and deferred costs*

Breakdown of amounts shown in the financial statements for each category:

	Year ended September 30, 2004
Information technology consulting expense	
Salaries	$2,074,170
Other	165,189
Cost of goods sold	
Equipment	$1,275,910
Software	264,452
Other	84,640
General and administrative expense	
Salaries	$400,377
Office rent and expense	283,585
Professional fees	36,947
Other	180,033
Depletion, depreciation and amortization	
Amortization of intangibles	$60,425
Depreciation of office equipment	68,080
Amortization of leasehold allowances	8,600
Depletion of oil and gas assets	6,000

2. *Related party transactions*

Not applicable.

3. *Summary of securities issued and options granted during the period*

No securities were issued during the period.

4. *Summary of securities as at the end of the reporting period*

See Note 8 of the Notes to the Consolidated Financial Statements.

5. *Names of officers and directors as of January 25, 2005*

Name	Position
Robert D. Matheson	Chairman, President & CEO
Glenn F. H. Matheson	Executive Vice-President & Director
Brian Tijman	Controller, CFO & Director
David Moser	Vice-President, Ontario & Director; President of Peartree Software Inc.
Jean-Sebastien Leroux	Director
Peter Varteresian	Director
Roy Clarke	Chief Technology Officer, Peartree Software Inc.
Jamie Skawski	Vice-President, Consulting

Schedule C: MANAGEMENT DISCUSSION AND ANALYSIS

Glenbriar has elected to continue to use the old format specified in BC Form 51-901F in reporting for the year ended September 30, 2004. Glenbriar will change the new formats specified in National Instrument 51-102 commencing with the first quarter of fiscal 2005.

1. *Description of Business*

Glenbriar Technologies Inc. (CNQ:GBRT) is an information technology (IT) services company headquartered in Calgary, with locations in Alberta, British Columbia and Ontario. Glenbriar designs, implements and supports business workflow improvement solutions for small and medium enterprises, including IT outsourcing and consulting services, IP telephony and call centre solutions. Glenbriar's subsidiary, Peartree Software Inc. in Kitchener-Waterloo, develops, markets and supports a proprietary suite of enterprise resource planning (ERP) software modules to manufacturers and distributors, such as Magna Canada, Dana Canada and Delta Faucet. Peartree's software is certified and verified for EDI for GM, Ford, DaimlerChrysler, Honda, Toyota and 61 other EDI formats.

2. *Discussion of Operations and Financial Condition*

Relocation of Head Office in Calgary

In November 2003, Glenbriar entered into a 5 year lease for a new head office location at 301, 401 – 9 Ave SW, Calgary, AB T2P 3C5. Glenbriar moved into the new premises in February 2004.

Awards and Recognition

Glenbriar was ranked 13th in the Deloitte & Touche 2004 Fast 50 Canadian Technology Companies, and 149th in the Deloitte & Touche 2004 Technology Fast 500 for North America. Glenbriar ranked 44th and 329th in these surveys in 2003, respectively.

Glenbriar achieved 102nd overall ranking in the 2004 Profit 100 Fastest Growing Companies in Canada, following its 42nd place ranking in 2003.

Glenbriar has been ranked the 16th fastest growing company in *"Alberta's Fastest Growing Companies 2004"* presented by Alberta Venture Magazine. Glenbriar placed 17th in this survey in 2003 and 10th in 2002.

Software development

Peartree has been providing integrated software solutions for over 15 years to a number of industries including manufacturers, distributors, small and medium businesses, recreational vehicle dealerships and veterinary clinics. Peartree's application software and services add ongoing value to its customers and support their mission critical business operations.

In 2003, Peartree initiated a software development project to update its software modules into a Web-centric environment. This project was originally designed to operate within the Microsoft .NET Framework. In June 2004, Peartree began testing a new set of software engineering tools which were specifically designed to put a Web interface on multivalue databases with fewer alterations or rewrites to the existing code than under the .NET Framework. These tools were developed in Australia by a company which had been in the process of porting an insurance company's multivalue database over to .NET, only to find costs starting to rise and delivery dates starting to slide. Initial

tests have now been completed, and the new tools are expected to substantially reduce the amount of coding required to move the existing applications into a Web-centric platform. Peartree is the first Canadian software company to make use of these tools to develop their applications. Discussions have been initiated with the Australian developers of the new tools to discuss the potential for expanding their use within Canada under some form of strategic alliance. The speed of development of the new modules is restricted by the need to fund the development out of existing cash flow.

Voice over IP

Glenbriar has been delivering reliable IP telephony, or voice over IP (VOIP) solutions to its clients since 2001. Glenbriar has combined its extensive data network experience with its telephone network experience to deliver reliable, one-stop branch office connectivity and networked telephony solutions to its clients. Glenbriar's telephony solutions include a completely distributed, modular voice communication solution with no single point of failure that is layered on top of a client's IP network. At the heart of the system is the standards-based Distributed IP Voice Architecture, which uniquely distributes call control intelligence to voice switches connected anywhere on the IP network. Voice applications (such as voicemail and automated attendant) and the management interface, are distributed to servers across locations, rather than centralizing applications at the network core. The resultant solution provides a single image system for all locations and all voice applications. The network is distributed, voice applications are bundled, and the management interface is integrated. The system can accommodate existing PBXs, and analog, digital and IP phones on a single switch. Glenbriar began installing the new systems in January 2003.

Glenbriar's IP telephony solutions have been expanded to include a VOIP based integrated call centre for small and medium businesses, with an enterprise version available for larger installs. System pricing depends on configuration and offers one of the lowest total costs of ownership (TCO) in the industry.

IT Management

Glenbriar delivers competent IT management and support that makes business processes and workflow accurate and efficient and keeps their IT systems reliable and stable. Glenbriar's typical target market is businesses with 1 to 300 active network nodes. Glenbriar provides a high degree of specialization in integrating diverse hardware platforms and software solutions which is beyond the scope of the internal resources of most small and intermediate sized businesses.

Hardware and software procurement are done directly by Glenbriar on behalf of clients. For clients that require and are able to afford tier one equipment, Glenbriar sources Dell or HP/Compaq servers and workstations. For clients that are on a restricted budget, Glenbriar sources Dell computers or assembles custom solutions for its clients. Glenbriar maintains trade accounts with over 35 industry suppliers, including Synnex, Ingram Micro and Tech Data. Glenbriar is an authorized reseller for Dell, Microsoft, HP/Compaq, Shoretel, 3Com, and several other manufacturers.

Glenbriar entered into a strategic alliance with the Calgary Centre for Non-Profit Management in 2003 to develop a program which will result in the delivery of IT services and business workflow solutions to the non-profit sector in an efficient and cost effective manner. Glenbriar has always been a strong supporter of the non-profit sector, providing IT services, IP telephony solutions and procurement services to various non-profits agencies. While providing services to the non-profit sector has low margins and is less profitable than dealing with commercial enterprises, Glenbriar management believes it is important to give back to the communities in which it operates in order to help those in need.

Intellectual property

All of Glenbriar's sales are arm's length sales to third parties outside the consolidated entity. Software licences are renewable annually, and renewal is required for the software to continue to function. Peartree's initial products were developed in the 1980s. Peartree owns the copyright to its source code, and has a number of employees with in excess of a decade of experience with its products. Glenbriar is a registered trade mark in Canada for the lines of business in which it operates.

Market conditions

The IT services and enterprise software markets are large and highly competitive. At Glenbriar or Peartree's size, it is not particularly useful to talk in terms of market share, as there are over 13,000 IT service providers and up to US$26 billion of annual enterprise software revenues in North America. These markets have generally been subject to a great deal of consolidation and business failures since the technology market downturn in April 2000. Glenbriar has a proven track record of growing and surviving during this difficult market period despite inadequate capitalization. Glenbriar believes the current market provides good opportunities for growth through acquisitions and development of niche products and services, especially compared to the equivalent costs prior to April 2000.

Results from Operations

Profit increased to $18,875 from $524 for the year ended September 30, 2004 over 2003. Glenbriar's revenues are typically weaker in the third and fourth quarters due to seasonal fluctuations in business demand over those quarters. Decline in gas revenue reflects production declines from the prior year period, which have been offset by price increases in the last quarter. Gas production expenses increased due to lower productivity resulting from natural production decline. Depreciation, depletion and amortization expense fell due to completion of the amortization of certain items included in intangible assets (see note 3 of Notes to Consolidated Financial Statements for the period ended June 30, 2004).

Revenue. Results for the year ended September 30, 2004 reflect: a) a decrease in revenue from US sources for Peartree of approximately $85,000 caused by the rise of the Canadian dollar relative to the US dollar; b) falling prices for hardware due to both industry trends and the rising Canadian dollar; and c) natural decline in gas producing assets. Leasehold improvement allowances and rent abatements were capitalized at year end 2004. See note 3 of Notes to Consolidated Financial Statements.

Expense. See Schedule B for a breakdown of the sources of major expense items.

Information technology consulting expense and cost of goods sold reflect the change in revenue attributable to those items. Cost of goods sold reflects additional amounts for inventory writedowns caused by falling product prices and the increase in the Canadian dollar, which resulted in reduced margins for most items.

General and administrative expense reductions reflect standardization and consolidation of operations throughout all locations.

Depreciation, depletion and amortization expense fell due to completion of the amortization of some categories of intangible assets (see notes 2 and 3 of Notes to Consolidated Financial Statements).

3. *Liquidity and Solvency*

As of September 30, 2004, Glenbriar had $225,034 of working capital, down from $484,283 a year earlier. About one-half of this change is attributable to a $137,248 decline in inventory caused by both valuation adjustments and a focused effort to reduce overall inventory levels. Prepaid expenses Glenbriar will also seek to increase the cash component of its working capital in order to improve overall liquidity in the coming quarters. While Glenbriar believes it has sufficient funds to meet its ongoing obligations as they become due, Glenbriar management believes new sources of capital are required to meet its growth objectives over the coming months and years.

The balance of the change in liquidity reflects the continuing need to fund software product development from internal cash flow. This funding methodology delays the time to bring new products to market, which increases the overall business risk. While Glenbriar will continue to seek creative financing opportunities in order to permit it to make additional acquisitions and finance growth, there can be no assurance that it will be successful in these efforts. Depending on the demand for additional working capital or the desire to grow through acquisitions, Glenbriar may be required to seek additional equity or debt financing, or to limit its growth in order to maintain liquidity.

Operating Credit Facility. Glenbriar maintains an operating line of credit with a Canadian chartered bank for up to $500,000 at prime +1% per annum. This facility is secured by all of Glenbriar's assets. The operating line was $175,048 as of September 30, 2004, and $XXX,XXX as of the date of this report. Long term liabilities (including current portion) fell $36,000 in fiscal 2004. The remaining balance of $18,500 is all current portion, and is being repaid at $3,000 per month without interest. Glenbriar uses the line of credit to ensure that it is able to continue to effectively conduct business and maintain liquidity during a period in which it is difficult to raise equity on acceptable terms.

Inventory. Inventory of $158,098 includes writedowns of $50,000. The remaining inventory represents mainly work in progress for clients who have ordered hardware and software for installation at client sites.

Accounts receivable. This account is made up of trade receivables for services performed for business clients, and is net of an allowance for doubtful accounts and bad debts of less than 2% of sales. Clients are billed in the month after services are rendered, with payment being received about 45 to 60 days after an invoice is sent. As a result, the year-end accounts receivable balance reflects 71 days of sales, which is up slightly from the prior year period. The need for additional working capital to finance trade receivables grows proportionately with overall sales revenue.

Accounts payable and accrued liabilities. This account fell by $32,842 in fiscal 2004.

Deferred revenue. This account is all attributable to Peartree, and represents payments received from customers for software maintenance fees, which revenues are deferred until such time as the services are performed. The $40,000 increase in deferred revenue reflects timing fluctuations in those prepayments.

4. *Subsequent Events*

Effective December 1, 2004, Glenbriar sold its remaining gas assets for $150,000. This is expected to result in a gain on sale of approximately $100,000. Future revenue and expense will not include any gas production. The purchaser assumed all liability for site restoration and abandonment. Glenbriar no longer owns any oil and gas interests.